

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 OMB-01 PA-01 PRS-01 /050 W

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R 071523Z JUL 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5054

C O N F I D E N T I A L CAIRO 9222

EO 11652: GDS

TAGS: USEGJC EINV EFIN EG

SUBJECT: INVESTMENTS IN EGYPT: CHASE NATIONAL BANK MAKES
TOO MUCH MONEY

1. MANAGER OF CHASE NATIONAL BANK JOHN CHARLTON HAS ADVISED US OF A MINOR CONCERN OVER POSSIBLE ILL EFFECTS WHICH MAY RESULT FROM EGYPTIAN DISCOVERY THAT HIS BANK IS MAKING SIGNIFICANT PROFITS. CHARLTON (PLEASE PROTECT BOTH SOURCE AND INFORMATION) ANTICIPATES THAT NET PROFITS FOR MONTH OF JUNE ALONE WILL BE ON ORDER OF \$0.5 MILLION. HE WONDERS IF AMOUNTS OF THIS MAGNITUDE MAY NOT IMPACT UNFAVORABLY ON OVERALL INVESTMENT CLIMATE AND, IN PARTICULAR, BANKING SECTOR.

2. CHARLTON SAYS THAT PART OF HIS CONCERN IS RELATED TO FACT THAT COMPANY'S OPERATIONS ARE INCREASINGLY SUCCESSFUL, FACING HIM WITH NECESSITY OF DECIDING IN VERY NEAR FUTURE HOW PROFIT QUESTION IS TO BE HANDLED. ONE OF ALTERNATIVES HE IS EVIDENTLY CONSIDERING IS ACCELERATED DEPRECIATION OF COMPANY'S ASSETS AND PRE-INVESTMENT EXPENSES. WHILE SUCH A STEP WOULD PERHAPS REDUCE SIZE OF PROBLEM IN SHORT TERM, HE POINTS OUT THAT OVER TIME QUESTION OF HOW TO HANDLE SIZEABLE PROFITS WILL RESURFACE.

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3. CHARLTON IS CONCERNED ABOUT POLITICAL AS WELL AS ECONOMIC IMPACT. HE INQUIRED IF EMBASSY FORESAW ANY SIGNIFICANT PROBLEMS AS RESULT OF SUCCESSFUL OPERATIONS. EMBOFF POINTED OUT THAT THERE IS VERY LITTLE ON WHICH TO MAKE A JUDGEMENT, SINCE CASE IS UNIQUE ON BASIS OF INFORMATION WE HAVE. IT WAS SUGGESTED, HOWEVER, THAT IF NORMAL BUSINESS PRACTICES PROVIDED SOME MEANS FOR REDUCING POTENTIAL IMPACT OF NET PROFITS, THERE WAS CLEARLY A GOOD REASON FOR THEM.

4. COMMENT: INsofar AS WE ARE AWARE, CHASE NATIONAL IS ONLY FOREIGN INVESTMENT IN EGYPT FACED WITH THIS TYPE OF DIFFICULTY. WE ANTICIPATE THAT AS NEW JOINT VENTURE BANKS COME INTO OPERATION -- PARTICULARLY THOSE WITH U.S. PARTICIPATION-- CHASE'S PROFITS MAY BE REDUCED SOMEWHAT. OTHER ALTERNATIVE IS THAT NEW BANKS WILL THEMSELVES EARN SIZEABLE INCOME. IN EITHER CASE, THE UNIQUENESS OF CHASE'S PROBLEM WILL BE MODIFIED, ALTHOUGH PERHAPS NOT IN IMMEDIATE FUTURE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, PROFITS, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CAIRO09222
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760262-0630
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760785/aaaacwst.tel
Line Count: 83
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUN 2004 by BoyleJA>; APPROVED <01 OCT 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INVESTMENTS IN EGYPT: CHASE NATIONAL BANK MAKES TOO MUCH MONEY
TAGS: EINV, EFIN, EG, USEGJC, CHASE NATIONAL BANK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006